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When Does Corporate Social Performance Pay for International Firms?

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Abstract

How does corporate social performance (CSP) affect financial performance as the firm expands internationally? To address this question, I integrate arguments from the International Business (IB) literature and the literature on CSP to propose that the costs and benefits associated with CSP are unevenly distributed across the range of internationalization. Specifically, I argue that the costs of CSP outweigh the benefits at low levels of internationalization, while the benefits outweigh the costs at high levels of internationalization, leading to a moderated, U-shaped relationship. In addition, I disentangle CSP's effects further by distinguishing between “do-good” CSP and “do-no-harm” CSP, which have been theorized to evoke different stakeholder perceptions and attributions and can thus be expected to harbor different performance effects across the range of internationalization. Analysis of a panel of 1,056 U.S.-based international firms over the period 1995–2012 lends support to these arguments.

Keywords

corporate social performance, financial performance, internationalization

How does corporate social performance (CSP) affect firm financial performance as the firm expands internationally? Given that both CSP and internationalization are important issues for firms, this is a relevant question—but

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one to which we thus far lack answers. Although the extensive body of research on the performance effects of CSP has generated mixed results (Crane, Henriques, Husted, & Matten, 2017), scholars generally agree that CSP not only comes at a cost to the firm (Fisher-Vanden & Thorburn, 2011; Gao & Slawinski, 2015; Wang & Bansal, 2012) but can also generate benefits that may offset or even exceed those costs (Flammer, 2015; Kacperczyk, 2009; Margolis & Walsh, 2003; Servaes & Tamayo, 2013). Such performance-enhancing benefits have been explained, for example, through mechanisms such as reduced costs of contracting (Jones, 1995), consumers' increased willingness to pay (McWilliams & Siegel, 2001), enhanced reputation (Brammer & Millington, 2005), and stakeholder influence capacity (Barnett, 2007).

Scholars have extended these ideas to theorize about CSP's potential value to international firms, defined here as firms that sell into foreign markets (Gardberg & Fombrun, 2006). CSP can reduce the "costs of doing business abroad" (Eden & Miller, 2004; Sethi & Judge, 2009) because it conveys important information about the international firm's "overall reliability, stability, and credibility" (Doh, Littell, & Quigley, 2015, p. 112). Such information can boost perceptions of social acceptability, or "legitimacy" (Kostova & Zaheer, 1999), in the eyes of local stakeholders, which is of particular importance to international firms given the "liabilities of newness and foreignness" they face in overseas markets (Marano, Arregle, Hitt, Spadafora, & van Essen, 2016). Yet, while evidence exists to support the claim that CSP is received positively in overseas markets (Henisz, Dorobantu, & Narley, 2014; Marano, Tashman, & Kostova, 2017; Prakash & Potoski, 2006), others argue that it is just as likely to be regarded with skepticism and distrust (Jamali, 2010; Jeppesen, List, & Folmer, 2002; Kellenberg, 2009; Mazutis & Slawinski, 2015). As such, CSP's performance effects in the international context remain unclear.

To address this issue, I integrate arguments from the International Business (IB) literature and the literature on CSP to propose that the costs and benefits associated with CSP are unevenly distributed across the range of internationalization. The IB literature has generated substantial evidence to show that internationalization itself has nonlinear performance effects, with numerous studies suggesting that financial performance deteriorates as firms pass through lower levels of internationalization, before improving again at higher levels of internationalization (Capar & Kotabe, 2003; Cardinal, Miller, & Palich, 2011; Contractor, Kumar, & Kundu, 2007; Gaur & Kumar, 2009). This "U-shaped curve" thus encompasses the negative effects of a lack of legitimacy at low levels of internationalization and the positive effects of legitimacy's gradual acquisition at higher levels of internationalization (Ruigrok, Amann, & Wagner, 2007). Linking these ideas to the notion that

CSP also has legitimating properties, I hypothesize that CSP and internationalization interact to generate a moderated, U-shaped financial performance curve.

That is, because firms at lower levels of internationalization are still relatively unknown in the international marketplace, they are more likely to face legitimacy assessments formed on the basis of limited information, bias, or stereotypes (Campbell, Eden, & Miller, 2012; Pant & Ramachandran, 2012). Such assessments can translate to higher costs in the form of, for example, adverse contracting terms, longer negotiations, or more intensive communication (Adair, Okumura, & Brett, 2001; Elango, 2009; Mezas, 2002), and thus negatively affect financial performance. I argue that in this context of relative unfamiliarity, international firms' CSP is also more likely to be regarded with skepticism, such that it fails to deliver the legitimacy-based benefits which would otherwise offset its costs, driving performance down further. However, as the firm reaches higher levels of internationalization, its greater familiarity and established international track record lead to more positive perceptions overseas (Kostova & Zaheer, 1999), and thus more positive performance effects. In this context of greater familiarity, CSP is more likely to engender the attributions of trustworthiness, reliability, and having stakeholders' "best interests at heart" (Suchman, 1995, p. 578) that underpin the mechanisms driving enhanced financial performance.

In addition, I disentangle CSP's effects further by distinguishing between "do-good" CSP and "do-no-harm" CSP (Crilly, Ni, & Jiang, 2016, p. 1316). The former refers to voluntary activities that create social value but are not prescribed by law or social norms, such as corporate philanthropy or affirmative action policies, while the latter refers to efforts to limit the social costs of business by ensuring that some minimum standards are maintained, such as in the realm of environmental degradation or product safety (Lin-Hi & Blumberg, 2018). Recent research suggests that although do-good CSP is more costly than do-no-harm CSP, the former engenders positive attributions in foreign markets, while the latter invokes frames of negative intent and perceptions of inauthenticity (Crilly et al., 2016). Thus, I argue that the costs and benefits associated with do-good CSP are of greater magnitude and more unevenly distributed than those of do-no-harm CSP, leading to more pronounced shifts in performance across the range of internationalization.

To explore these hypothesized relationships, I analyze a panel of 1,056 U.S.-based international firms consisting of 9,914 firm-year observations over the period 1995-2012. Consistent with my theorizing, I find that stronger CSP is associated with positive performance overall, but also interacts with the level of internationalization to produce greater negative performance effects as firms move through lower levels of internationalization and greater

positive performance effects as firms move through higher levels of internationalization. Furthermore, my analysis reveals that the effects of do-good CSP are contingent upon the level of internationalization, while the effects of do-no-harm CSP are not. Specifically, the stronger the do-good CSP, the more negative the impact on financial performance at lower levels of internationalization and the more positive the impact at higher levels of internationalization. In contrast, stronger do-no-harm CSP is associated with more positive—but marginally decreasing—performance effects across the full range of internationalization. These findings are robust to a number of controls, alternate measures of performance, and a host of robustness checks aimed at isolating within-firm effects and accounting for autocorrelation and endogeneity.

My study leads to two main contributions. First, based on integration of arguments from the IB literature with the literature on CSP, my analysis enhances our understanding of when CSP contributes to performance as firms internationalize (Doh et al., 2015; Marano et al., 2017; Stahl, Tung, Kostova, & Zellmer-Bruhn, 2016). My findings add an international dimension to the notion that CSP's costs and benefits are unevenly distributed over time (Flammer & Bansal, 2017) and suggest that most firms are “under-internationalized” with respect to the performance-enhancing effects of CSP. Second, in line with research suggesting that do-good CSP is associated with not only higher costs but also greater potential benefits than do-no-harm CSP, I show that the performance effects vary significantly when CSP is decomposed into these two constituent components (Crilly et al., 2016; Lin-Hi & Blumberg, 2018; Mattingly & Berman, 2006). Specifically, the effects of do-good CSP vary with the level of internationalization, while those of do-no-harm CSP do not. These findings have bearing on how we understand the trade-offs between these two approaches to CSP.

Theory and Hypothesis Development

Firms in today's business environment face complex challenges. Not only are they pressured to consistently report high levels of financial performance (Barton & Wiseman, 2014), they also face stakeholders' “ratcheting expectations” with respect to their CSP (Bertels & Pelozo, 2008; Chiu & Sharfman, 2011) and an increasingly competitive global business environment in which those expectations manifest (Jamali, 2010; Johnson & Greening, 1999). To complicate matters further, CSP is a multidimensional construct that reflects both efforts to achieve positive social externalities—“do good”—and efforts to mitigate negative ones—“do-no-harm” (Mattingly & Berman, 2006; Strike, Gao, & Bansal, 2006). Scholars have theorized that these two dimensions of

CSP affect stakeholder perceptions in different ways, particularly in the international context (Crilly et al., 2016), and thus likely have unique consequences for performance. Yet, thus far, we lack a clear understanding of how CSP and its two constituent dimensions affect financial performance as firms expand internationally.

At its core, financial performance is a function of the revenues generated through business activities minus the costs incurred to engage in those activities. In theorizing about the financial performance effects of CSP under international expansion, I emphasize that both CSP and internationalization are associated with costs and potential benefits. Strong CSP not only harbors the potential to generate benefits that lead to positive financial outcomes but also requires firms to divert resources away from more short-term productive purposes (Fisher-Vanden & Thorburn, 2011; Servaes & Tamayo, 2013). Similarly, international expansion offers the prospect of growth and economies of scale, but typically requires firms to incur additional costs above those they would normally face at home, negatively affecting firms' profit margins (Eden & Miller, 2004; Lu & Beamish, 2001). In the following sections, I endeavor to integrate these two streams of research by theorizing that the ability of CSP to positively affect the financial performance of internationalizing firms varies by the level of internationalization.

CSP and Financial Performance

Numerous studies have considered the relationship between CSP and financial performance over the past several decades (Crane et al., 2017; Margolis & Walsh, 2003; Wang, Dou, & Jia, 2016). While some have questioned the theoretical foundations of such a relationship in light of conceptual confusion surrounding the CSP construct itself (Rowley & Berman, 2000), most studies consider CSP a coherent construct that represents the aggregate accumulation over time (Barnett, 2007) of "a company's actions that appear to further some social good, beyond the interests of the company itself" (McWilliams & Siegel, 2001, p. 117). In addition, while some have questioned the empirical reality of such a relationship based on the notion that costs and benefits associated with CSP are likely to simply offset (McWilliams & Siegel, 2001), a cautious consensus seems to have emerged that CSP is associated with positive, albeit modest financial performance effects (Margolis & Walsh, 2003; Shahzad & Sharfman, 2017).

Recognizing that there are nontrivial costs associated with achieving and sustaining strong CSP (Barnett, 2007) such as diverted financial resources, managerial time, and managerial attention (Fisher-Vanden & Thorburn, 2011; Gao & Slawinski, 2015; Wang & Bansal, 2012), research has focused on

explicating mechanisms through which CSP can have positive effects on financial performance, such as by motivating employees, boosting reputation among consumers, or helping secure more advantageous contractual agreements with suppliers (Flammer, 2015; Flammer & Luo, 2017; Jones, 1995; Margolis & Walsh, 2003). Although this research has made important contributions, some have cautioned against assumptions of a universal relationship and emphasized that any such effects are likely to be contingent upon other factors (Barnett, 2007; Rowley & Berman, 2000). For instance, it has been suggested that CSP's performance effects may depend on its relative level compared with that of other firms (Barnett & Salomon, 2012) or on features of the institutional environment (Wang et al., 2016).

In addition to considering differences between firms, research has investigated within-firm variance over time. This is particularly relevant given that in general, the costs associated with CSP need to be incurred up front, while any benefits will only materialize later—if they materialize at all (Flammer & Bansal, 2017). This is in large part because the mechanisms through which CSP can enhance performance depend on stakeholder perceptions and attributions, which evolve over time (Brammer & Millington, 2008). That is, ample evidence suggests that stakeholders must be aware of the firm's CSP (Servaes & Tamayo, 2013) and also make positive attributions based on that CSP for it to engender positive outcomes (Crilly et al., 2016; Donia & Sirsly, 2016; Godfrey, Merrill, & Hansen, 2009; Lin-Hi & Blumberg, 2018). For example, research in this vein suggests that CSP will be regarded with skepticism if it is perceived to be driven by strategic motives (Dean, 2003) and that such perceptions are associated with negative financial performance outcomes (Muller & Kräussl, 2011). In contrast, CSP that is perceived to be sincere or authentic will evoke the positive attributions that move stakeholders in ways that reward the firm (Godfrey, 2005; Mazutis & Slawinski, 2015). In sum, evidence suggests a modest positive relationship between CSP and performance, but one that can vary for a given firm as stakeholder perceptions evolve over time.

Internationalization and Financial Performance

The relationship between a firm's level of internationalization and its financial performance also continues to be a topic of great scholarly interest (Marano et al., 2016). While disagreement persists as to the exact form of the relationship (for recent overviews, see, for example, Cardinal et al., 2011; Hitt, Tihanyi, Miller, & Connelly, 2006; Kirca et al., 2011; Tsai, 2014), most agree that internationalization is a challenging endeavor associated with both costs and benefits (Abdi & Aulakh, 2018; Bruton, Ahlstrom, & Li, 2010;

Denk, Kaufmann, & Roesch, 2012; Fortanier, Muller, & van Tulder, 2007; Kostova & Zaheer, 1999; Zhang, Zhong, & Makino, 2015). International markets offer opportunities in the form of increased market scope, scale economies, and leveraging learning and best practices across markets (Capar & Kotabe, 2003; Contractor, Kundu, & Hsu, 2003) but typically require firms to incur higher costs as well (Eden & Miller, 2004; Lu & Beamish, 2001).

These “costs of doing business abroad” (Eden & Miller, 2004; Sethi & Judge, 2009) can arise due to numerous factors. While some are essentially market driven, such as higher freight and insurance costs, foreign exchange costs, and trade barriers, others stem from a lack of familiarity with regulations, norms, and ways of conducting business in the foreign market that make it difficult to establish and manage relationships with local stakeholders (Clark, Pugh, & Mallory, 1997; Contractor et al., 2003; Forsgren, 2002). These difficulties are rooted in the fact that local stakeholders are unfamiliar with the international firm, and thus form initial perceptions of the international firm’s reliability and trustworthiness on the basis of relatively simplistic heuristics that involve limited information, bias, or stereotypes (Campbell et al., 2012).

Such perceptions can lead to a heightened sense of caution, skepticism, or even outright hostility (Jeppesen et al., 2002; Pant & Ramachandran, 2012; Stahl et al., 2016), which force the international firm to incur costs through, for example, more intensive search efforts, longer negotiations, more frequent communication, adverse contracting terms, or even litigation (Adair et al., 2001; Elango, 2009; Mezias, 2002). Even the tension and frustration management experiences as a result of these issues can lead to costs in the form of lower productivity (Daamen, Hennart, Kim, & Park, 2007). The implication is that as firms continue their international expansion, the increasing share of relatively lower margin foreign sales in the firm’s total sales should gradually drive down the firm’s overall profitability.

Consequently, a considerable body of research has explored factors that help firms to overcome such liabilities. Learning has been a particular focus of such research, because learning about and conforming to expectations overseas are said engender the positive perceptions that lead to the conferral of legitimacy in foreign markets (Denk et al., 2012; Kostova & Zaheer, 1999; Ruigrok et al., 2007). Legitimacy is an important precondition for preferential access to stakeholder resources and support, and thus vital for performance (Palazzo & Scherer, 2006). Accordingly, initial negative assessments based on oversimplified heuristics increasingly make way for more positive assessments based on incurred experience with the international firm or even the referrals of others (Dacin, Oliver, & Roy, 2007). Based on such ideas, several scholars have theorized a “U-shaped” relationship between

internationalization and financial performance, where the costs of expansion outweigh the benefits at lower levels of internationalization, but the benefits outweigh the costs at higher levels of internationalization (Capar & Kotabe, 2003; Contractor et al., 2007; Lu & Beamish, 2001; Ruigrok & Wagner, 2003).¹

An Integrated Perspective on CSP and Internationalization

The two strands of scholarship reviewed above have established that both the relationship between CSP and performance and the relationship between internationalization and performance are shaped by the evolving, socially constructed attributions stakeholders make about the firm and its intentions. A number of scholars have identified synergies between these perspectives, noting that CSP and internationalization appear to go hand in hand (Gao & Slawinski, 2015; Strike et al., 2006). It has been suggested, for example, that higher levels of internationalization are associated with higher levels of corporate philanthropy abroad (Cowan, Huang, Padmanabhan, & Wang, 2013), and that such efforts are typically aimed at mobilizing stakeholder support (Reimann, Ehrgott, Kaufmann, & Carter, 2012). As such, many tout CSP on account of its legitimating properties overseas, because it signals a willingness to conform to global “meta-norms” of how to treat the social environment (Marano et al., 2017, p. 387).

However, with respect to investments in CSP, there is “no guarantee that these efforts always pay off” in the international context (Crilly et al., 2016, p. 1316). This is because information like the firm’s CSP is typically interpreted in the context of other potentially relevant available signals (Dineen & Allen, 2016). Although some have theorized that CSP can compensate for negative legitimacy perceptions, information about international firms’ CSP is not likely to precede, or substitute for, other sources of information: Rather, it will be interpreted in the context of assumptions of motive, which will be inferred from other available sources. For instance, the expectation of negative externalities associated with an international firm’s market entry could cast its CSP efforts in a negative light instead of a positive glow (P. Jones, Comfort, & Hillier, 2005). Specifically, the simplified heuristics discussed previously (Campbell et al., 2012) will amplify perceptions of the international firm as a member of the “out-group” (Crilly et al., 2016), increasing the likelihood that its CSP will be viewed as an attempt at ingratiation. As a result, the firm will fail to obtain the benefits that would otherwise derive from positive attributions of its CSP (Godfrey, 2005).

By implication, the performance effects of CSP among international firms should vary with the level of internationalization. Because international firms at lower levels of internationalization are less well known abroad, they face more negative legitimacy assessments and thus deteriorating performance overall as the international component of their overall activity grows (Campbell et al., 2012; Pant & Ramachandran, 2012). Under those circumstances, their CSP is also more likely to be regarded with skepticism, meaning that the costs incurred to achieve strong CSP will not be offset by any related benefits, such that performance is driven down further. In contrast, at higher levels of internationalization, when an international reputation for trustworthiness is more firmly established (Chiu & Sharfman, 2011; Crilly et al., 2016; Kostova, Roth, & Dacin, 2008; Suchman, 1995), strong CSP is more likely to be perceived as a sincere signal that leads to more positive attributions, thereby enhancing the performance-enhancing mechanisms described above. Accordingly, I hypothesize as follows:

Hypothesis 1: The performance effects of CSP are contingent upon the firm's level of internationalization, such that CSP negatively affects performance at lower levels of internationalization and positively affects performance at higher degrees of internationalization.

Do-Good CSP Versus Do-No-Harm CSP

When considering perceptions and attributions, scholars have increasingly emphasized the importance of disaggregating CSP into its constituent “do-good” and “do-no-harm” components (Crilly et al., 2016; Jo & Harjoto, 2012; Lin-Hi & Blumberg, 2018; Rowley & Berman, 2000; Muller & Kräussl, 2011). Do-good CSP reflects proactive strategies that create social value, while do-no-harm CSP refers to efforts to limit the social costs of business (Crilly et al., 2016). Do-good CSP is a function of voluntary activities that may go beyond law or even social norms, such as corporate philanthropy, corporate affirmative action policies, or cause-related marketing, and can be seen as “giving back” to society (Lin-Hi & Blumberg, 2018). In contrast, do-no-harm CSP stems from efforts to attenuate negative externalities by ensuring that some minimum standards are maintained in areas such as employee safety, environmental degradation, and product safety (Campbell, 2007). With respect to the costs of CSP, the distinction matters: As an expression of firms “just doing what they have to do,” do-no-harm CSP requires more modest resource commitments than do-good CSP (Lin-Hi & Blumberg, 2018, p. 189).

Moreover, recent research suggests that do-good CSP and do-no-harm CSP are perceived in very different ways (Crilly et al., 2016). Specifically, attribution theory predicts (and experimental evidence supports) the notion that stakeholders react more favorably to do-good CSP because it is considered “nice to see, but not expected” (Lin-Hi & Blumberg, 2018, p. 189). By contributing to societal well-being in ways that exceed role expectations, firms engaging in do-good CSP enjoy positive attributions based on perceptions of sincerity and authenticity (Crilly et al., 2016). With respect to do-no-harm CSP, research has paid less attention to the attributions associated with the absence of negative externalities than to the attributions associated with their presence (Lin-Hi & Blumberg, 2018). Although the presence of harm has been shown to weigh disproportionately heavily in the minds of the observer (Kölbel, Busch, & Jancso, 2017; Lange & Washburn, 2012), recent research suggests that the *absence* of harm does not generate positive attributions in the same way that the presence of harm generates negative ones. This is because stakeholders are likely to see do-no-harm CSP as compliance-induced instead of motivated by authenticity (Cording, Harrison, Hoskisson, & Jonsen, 2014). Paradoxically, the more negative attributional thinking associated with harm actually frames do-no-harm CSP in negative terms, eliciting more scrutiny and inviting skepticism regarding motivation (Crilly et al., 2016).

This asymmetry is likely to be accentuated in the context of international expansion. Maintaining strong CSP across their operations as they expand abroad requires firms to increase their CSP-related investments, which enjoy only limited scalability across borders (Devinney, McGahan, & Zollo, 2013; Gardberg & Fombrun, 2006). Because the costs associated with do-good CSP are greater than those associated with do-no-harm CSP, greater increases in resource commitments are required to maintain a given level of do-good CSP as the firm passes through the range of international expansion than to maintain a given level of do-no-harm CSP. However, because of do-no-harm CSP’s limited potential to generate positive attributions (Crilly et al., 2016), international firms also derive fewer benefits from that do-no-harm CSP as they internationalize. In sum, the costs associated with maintaining strong do-good CSP are greater across the range of internationalization than the costs associated with maintaining strong do-no-harm CSP, but the potential rewards that can offset those costs are also relatively greater. I hypothesize as follows:

Hypothesis 2: Do-good CSP is associated with more pronounced shifts in financial performance across the range of internationalization than do-no-harm CSP.

Method

To test these hypotheses, I constructed a panel data set consisting of all U.S. firms that appear in the Kinder, Lydenberg, and Domini (KLD) database over the period 1995-2012 (18 years) for which matching financial data could be obtained through Compustat. KLD is one of several highly utilized databases that tracks firms' social performance and has been validated in numerous studies (Hart & Sharfman, 2015; Mattingly, 2017; Shahzad & Sharfman, 2017). This initial data set comprised 1,765 firms and a total of 15,628 firm-year observations. I then omitted firms that had no observable internationalization over the entire period (i.e., firms whose foreign sales = 0 for all available firm-years) because the firm-fixed effects models require that the variables of interest be time-variant. After omitting all such firms as well as firm-year observations with missing values, I retained a panel of 1,056 U.S. firms and 9,914 firm-year observations.

Measures

Performance. I measured the dependent variable *performance* as return on assets (ROA), which is a commonly used measure of corporate financial performance in studies on the performance effects of both CSP and internationalization (Barnett & Salomon, 2012; Lu & Beamish, 2004; Ruigrok & Wagner, 2003). The measure was constructed by dividing reported net income by total assets, both of which were drawn from Compustat, and winsorized at the 2% level. ROA speaks to the ability of a firm's deployed assets to generate returns for the firm and is thus a logical measure of financial performance. However, I test alternate specifications (discussed below) based on return on sales (ROS) and Net Income as alternate measures (Barnett & Salomon, 2012), generating similar results.

Internationalization. Numerous measures of the level of internationalization exist in the literature, including ratios such as foreign assets to total assets or foreign employees to total employees, as well as more complex measures such as geographic dispersion of subsidiaries or the number of foreign countries in which the firm operates (Hsu & Boggs, 2003). As Ruigrok and colleagues (2007) point out, the measure used will also reflect the conceptualization of internationalization under study. The ratio of foreign sales to total sales (FS/TS) has been shown in numerous studies to adequately capture exposure to foreign markets (Contractor et al., 2003; Hennart, 2011; Ruigrok et al., 2007). As my theorizing refers to firms expanding their sales into foreign markets, I use the ratio of FS/TS as my measure of *internationalization*. However, to

account for the *geographic scope* of internationalization, I control for the number of regions those foreign sales are spread across (see below).

CSP. In line with extant research (Choi & Wang, 2009; Koh, Qian, & Wang, 2014), I operationalized overall CSP by creating an aggregated net difference score across the dimensions of social performance captured by the KLD database. KLD documents whether a firm demonstrates “strengths” and “concerns” across subdimensions in seven main categories: the environment, community involvement, product safety, corporate governance, employee relations, human rights, and diversity (Wharton Research Data Services [WRDS], 2015). Strengths are associated with the identification of activities across each of the seven dimensions that generate positive externalities, such as the use of clean energy, strong corporate philanthropy programs, or policies that promote work–life balance or gender equality. Concerns are associated with activities across each of the seven dimensions that generate negative externalities, such as toxic emissions, tax disputes, labor unrest, or involvement in controversial industries. Importantly, in monitoring companies’ social performance, KLD tracks their international activities (cf. Strike et al., 2006). Thus, KLD scores can be considered a measure of a firm’s overall CSP across the various markets it conducts business in.

To construct the CSP measure used to test Hypothesis 1, I first subtracted the number of concerns per dimension from the number of strengths per dimension (Choi & Wang, 2009; Koh et al., 2014). Because not all dimensions comprise the same number of subdimensions, and because KLD has changed the numbers of subdimensions at various points over the years (Shiu & Yang, 2017), I then standardized the scores for each dimension to make the scores comparable across dimensions and across time (Choi & Wang, 2009). The aggregate CSP measure represents the average of these net differences across the seven dimensions, winsorized at the 2% level. While others have used only five of the seven dimensions (Choi & Wang, 2009; Koh et al., 2014), it is not clear a priori why CSP on any of the seven dimensions would not affect legitimacy perceptions. In addition, using all the information contained in the KLD data enhances construct validity (cf. Kang, 2016). However, I note that the seven-dimension measure correlates at .9 with the five-dimension measure, and the results generated using the five-dimension measure are virtually identical to those reported below.

To operationalize *do-good CSP* and *do-no-harm CSP* (Hypothesis 2), I adopted a similar procedure as for the composite CSP score described above, but measured a firm’s KLD strengths (*do-good CSP*) and concerns (*do-no-harm CSP*) separately. For *do-good CSP*, I standardized each of the seven dimensions of KLD strengths across the full sample and then took the

average of these seven standardized items per firm per year. For *do-no-harm CSP*, I standardized each of the seven dimensions of KLD concerns across the full sample and then took the average of these seven standardized items per firm per year. Given that more concerns represent higher levels of harm, I reverse-coded the averaged, standardized concern scores so that a *higher* number represents *fewer* concerns, and thus a higher *do-no-harm* score.² All three measures—CSP overall, do-good CSP, and do-no-harm CSP—are winsorized at the 2% level.

Control Variables

I controlled for a number of additional factors known to relate to firm performance. First, I controlled for *firm size*, operationalized as the firm's total sales (log-transformed), based on the notion that size relates to purchasing power and the potential for scale economies, and thus is a commonly used predictor of firm performance. Second, I controlled for reported *R&D* expenditures and *advertising* expenditures, given that extant literature links such expenditures to performance (McWilliams & Siegel, 2000). Third, I controlled for *leverage*, as debt financing affects profitability. I measured leverage as total liabilities divided by total assets. Fourth, I controlled for *diversification*, as managers in diversified firms face more and increasingly diverse information across a wider range of businesses and face a more diverse constellation of stakeholders, which could negatively affect performance (Hitt, Hoskisson, & Kim, 1997; Oh & Contractor, 2012). I operationalized diversification using an entropy score, where $diversification = \sum_i [P_i \times \ln(1/P_i)]$, in which P_i is the sales attributed to each self-reported business segment i and $\ln(1/P_i)$ is the weight given to each business segment (Goerzen & Beamish, 2003). To calculate this entropy score, I omitted all nonoperating segments, such as "corporate," "unallocated," or "adjustments." The continuous controls (*size*, *diversification*, *leverage*) are winsorized at the 2% level.

In addition, to account for the fact that a given foreign sales percentage can vary in its level of geographic dispersion, I also controlled for *geographic scope* of internationalization based on the number of foreign regions that could be identified in each firm's geographic segment reporting. That is, while firms rarely report their sales on a country-by-country basis, they do typically break down their reported sales into "geographic segments," where a segment may be an individual country (e.g., "Germany"), but is more typically some aggregation of countries or even regions (e.g., "Europe" or "EMEA" [Europe, Middle East and Africa]). Accounting regulations afford companies considerable latitude with respect to the identification of segments and the level at which they are aggregated, such that the exact segments reported vary

considerably across firms, and over time. These issues preclude a consistent and reliable breakdown of the exact amount of sales attributable to clearly identifiable foreign regions across firms and over time.

To address some of this heterogeneity, I manually recoded each reported (non-U.S.) segment as representing sales in one or more of seven identifiable foreign regions: "Africa," "Asia," "Europe," "Latin America," "Middle East," "(Non-U.S.) North America," and "Pacific." Specific countries were classified in terms of their regional membership and reported segments that touched on multiple regions were disaggregated (e.g., the reported segment "Middle East and Africa" represents both "Middle East" and "Africa"). Segments which could not be attributed in this way (e.g., "Foreign," "Other," "Eastern Hemisphere") were recoded as "Undetermined."³ Thus, the control for *geographic scope* of internationalization ranges from 0 to 7, with 23% of the observations reporting activities in one identifiable region, 18% reporting two, 14% reporting three, 9% reporting four, and 12% reporting at least five. Observations for which no specific foreign regions could be identified (i.e., where the regional dimension of foreign sales remained "Undetermined") took a value of 0 for this measure.

Results

Descriptive statistics and bivariate correlations are reported in Table 1. Table 1 shows that the average financial performance for all firms over the 18-year period was 0.048, with a standard deviation of 0.09. The value for internationalization averaged 34% with a standard deviation of 0.25. In terms of correlations, Table 1 reveals several variables to be positively correlated with financial performance (size, advertising, leverage, CSP), while others are negatively correlated with financial performance (R&D expenditures, internationalization, geographic scope).

CSP and Internationalization

I adopted a firm-fixed effects approach, given that I am interested in analyzing the impact of firm-level variables that can vary over time, while controlling for time-invariant differences between firms. Fixed-effects models address misspecification errors identified in cross-sectional studies (Margolis & Walsh, 2003; Servaes & Tamayo, 2013). Significant Hausman test results ($\chi^2 = 184.63, p < .01$) also indicated that a fixed-effects approach was preferred over a random-effects approach. To account for temporal effects that may be present, such as those associated with the 2007-2008 financial crisis, I included year dummies in my specifications.

Table 1. Descriptive Statistics and Bivariate Correlations.

	M	SD	1	2	3	4	5	6	7	8	9	10
1. Financial performance	0.048	0.089	1									
2. Size	7.329	1.633	.196**	1								
3. Diversification	0.404	0.513	.016	.338**	1							
4. Leverage	0.199	0.089	.028**	.287**	.097**	1						
5. Advertising	0.375	0.484	.086**	.031**	-.049**	.094**	1					
6. R&D	0.652	0.476	-.024*	-.130**	-.016	.006	.128**	1				
7. Geographic scope	1.884	1.841	-.025**	.010	.017	.039**	-.056**	.116**	1			
8. Internationalization	0.343	0.246	-.033**	-.035**	.044**	.017	-.033**	.259**	.430**	1		
9. CSP (overall)	0.011	0.432	.112**	.053**	-.028**	.051**	.114**	.133**	-.055**	.038**	1	
10. Do-good CSP	0.058	0.668	.121**	.500**	.182**	.078**	.117**	.089**	.016	.098**	.578**	1
11. Do-no-harm CSP	-0.034	0.560	-.006	-.476**	-.221**	-.028**	.014	.048**	-.089**	-.066**	.488**	-.377**

Note. CSP = corporate social performance.

* $p < .05$. ** $p < .01$.

Table 2. Firm-Fixed Effects Models of CSP and Financial Performance of International Firms.

	Model 1a		Model 1b		Model 1c	
	β	SE	β	SE	β	SE
Constant	-0.181	0.018***	-0.176	0.018***	-0.177	0.018***
Size	0.041	0.002***	0.042	0.002***	0.042	0.002***
Diversification	-0.012	0.003***	-0.012	0.003***	-0.012	0.003***
Leverage	-0.073	0.016***	-0.073	0.016***	-0.073	0.016***
R&D	0.000	0.004	0.001	0.004	0.001	0.004
Advertising	-0.003	0.006	-0.003	0.006	-0.003	0.006
Geographic scope						
1	-0.002	0.004	0.001	0.004	0.001	0.004
2	-0.004	0.004	0.000	0.004	-0.001	0.004
3	-0.007	0.005	-0.004	0.005	-0.004	0.005
4	-0.014	0.005**	-0.011	0.005**	-0.012	0.005**
5	-0.011	0.006**	-0.008	0.006	-0.008	0.006
6	-0.004	0.008	-0.002	0.008	-0.002	0.008
7	0.006	0.008	0.010	0.008	0.010	0.008
CSP	0.006	0.002***	0.006	0.002**	0.013	0.005***
Internationalization	-0.012	0.009	-0.116	0.020***	-0.111	0.020***
Internationalization ²			0.133	0.023***	0.128	0.023***
CSP \times Internationalization					-0.064	0.027**
CSP \times Internationalization ²					0.080	0.033**
Firm-fixed effects		Yes		Yes		Yes
Year dummies		Yes		Yes		Yes
Number of observations		9,914		9,914		9,914
Number of firms		1,056		1,056		1,056
F statistic		27.71***		28.01***		29.20***
R ² (within)		.089		.092		.101

Note. CSP = corporate social performance.

* $p < .10$. ** $p < .05$. *** $p < .01$.

The results of the tests for Hypothesis 1 are presented in Table 2. Model 1a captures the effects of the control variables on performance (*ROA*), in addition to the main effects of *CSP* and *internationalization*. While the main effect of *internationalization* is nonsignificant, the main effect of *CSP* is significantly positive ($\beta = 0.006$, $p < .01$). In Model 1b, I introduced the quadratic term *internationalization*². As expected, the main effect for *internationalization* is

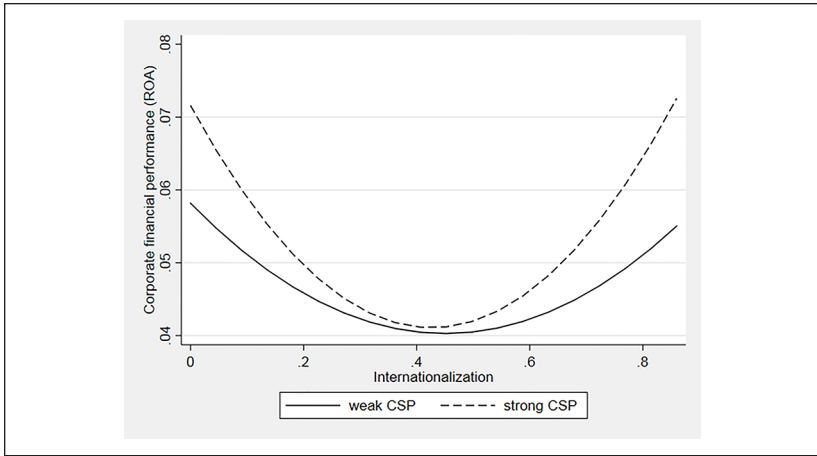


Figure 1. The interactive effects of CSP and internationalization on financial performance.

Note. Estimated marginal effects of Model 1c in Table 2. Estimates produced for CSP at 1 standard deviation above and below the mean. CSP = corporate social performance.

now significantly negative ($\beta = -0.116, p < .01$), while the quadratic term is significantly positive ($\beta = 0.133, p < .01$). This indicates a curvilinear, “U-shaped” internationalization–performance relationship consistent with prior literature.⁴ The coefficient for CSP remained statistically significant ($\beta = 0.006, p < .01$). In Model 1c, I introduced the interactions between CSP and internationalization, and CSP and internationalization². Model 1c reveals significant negative interactions between CSP and internationalization ($\beta = -0.064, p < .05$) and significant positive interactions between CSP and internationalization² ($\beta = 0.080, p < .05$). These findings imply that CSP amplifies the negative financial performance effects that exist at lower degrees of internationalization and the positive performance effects that exist at higher degrees of internationalization, consistent with Hypothesis 1.

To visualize these effects, I graphed the marginal effects of internationalization on performance at -1 and $+1$ standard deviations of CSP (Figure 1). Given that internationalization in my sample takes a mean value of 0.34 (with a standard deviation of 0.25), Figure 1 indicates that overall, most firms during the 1995–2012 period found themselves on the left side of the U-shaped curve. These findings suggest that most firms are insufficiently international to leverage the potential for benefit from their CSP.

Turning to the respective curves, Figure 1 shows that the slopes of the curve for strong-CSP firms are steeper than the slopes of the curve for

weak-CSP firms. Bearing in mind that the average financial performance in the sample takes a value of 0.048 (standard deviation 0.09), Figure 1 implies that as a firm with weak CSP moves from the lowest level of internationalization to its inflection point at about 43% foreign sales, its ROA will drop from just under 6% to just over 4% (a drop of 33%, in nominal terms) before returning to about 5.5% at the highest degree internationalization. In contrast, the ROA of a firm with strong CSP will drop from over 7% to just over 4% (a drop of nearly 45%, in nominal terms) before climbing back to just over 7% at the highest degree internationalization. Thus, the magnitude of the performance effect of strong CSP over the range of internationalization is nearly 50% greater than that of weak CSP. At a median total asset value of US\$1.6 billion, a 3 percentage point swing in ROA equates to US\$48 million in profits.

Do-Good CSP Versus Do-No-Harm CSP and Internationalization

To test Hypothesis 2, I reestimated Model 1c in Table 2, substituting the overall CSP measure with the measures for *do-good CSP* and *do-no-harm CSP*, respectively (Table 3). I first report do-good CSP and do-no-harm CSP separately (Models 2a and 2b), before incorporating both together (Model 2c). Collectively, the models in Table 3 show a consistent picture, in which the positive financial performance effects of do-good CSP vary across the range of internationalization, while the financial performance effects of do-no-harm CSP do not. These results provide support for Hypothesis 2.

Graphing this output (Figure 2a and 2b) leads to a number of observations. Figure 2a, for instance, not only reveals that the curve is more leptokurtic in the case of do-good CSP than for CSP overall (Figure 1), but it also shows that the inflection point occurs at a lower level of internationalization when do-good CSP is strong versus when it is weak. The implication is one of a virtuous spiral of legitimacy, in which multiple sources of positive information enable stakeholders to form more positive legitimacy assessments, and to do so sooner. In contrast, Figure 2b not only shows a performance effect for do-no-harm CSP that is positive overall but also suggests that costs increasingly outweigh benefits as the firm passes through the range of internationalization.

Robustness Checks

I conducted a number of robustness checks, related to model specifications as well as the operationalization of variables. First, I specified Model 1c in Table 2 with ROS and *net income* as dependent variables (winsorized at the

Table 3. Firm-Fixed Effect Models of Do-Good Versus Do-No-Harm CSP on the Financial Performance of International Firms.

	Model 2a		Model 2b		Model 2c	
	β	SE	β	SE	β	SE
Constant	-0.175	0.018***	-0.183	0.018***	-0.184	0.018***
Size	0.042	0.002***	0.042	0.002***	0.042	0.002***
Diversification	-0.013	0.003***	-0.013	0.003***	-0.013	0.003***
Leverage	-0.073	0.016***	-0.074	0.016***	-0.073	0.016***
R&D	0.001	0.004	0.001	0.004	0.001	0.004
Advertising	-0.004	0.006	-0.003	0.006	-0.003	0.006
Geographic scope						
1	0.000	0.004	0.001	0.004	0.001	0.004
2	-0.001	0.004	0.000	0.004	-0.001	0.004
3	-0.004	0.005	-0.004	0.005	-0.004	0.005
4	-0.011	0.005**	-0.011	0.005**	-0.011	0.005**
5	-0.009	0.006	-0.008	0.006	-0.009	0.006
6	-0.003	0.008	-0.002	0.008	-0.003	0.008
7	0.010	0.008	0.009	0.008	0.009	0.008
Internationalization	-0.113	0.020***	-0.114	0.020***	-0.109	0.020***
Internationalization ²	0.128	0.023***	0.130	0.023***	0.122	0.023***
Do-Good CSP	0.002	0.005			0.001	0.005
Do-Good CSP \times Internationalization	-0.047	0.024**			-0.045	0.024*
Do-Good CSP \times Internationalization ²	0.071	0.028**			0.068	0.028**
Do-No-Harm CSP			0.016	0.005***	0.017	0.005***
Do-No-Harm CSP \times Internationalization			-0.014	0.027	-0.024	0.027
Do-No-Harm CSP \times Internationalization ²			-0.005	0.033	0.008	0.034
Firm-fixed effects		Yes		Yes		Yes
Year dummies		Yes		Yes		Yes
Number of observations		9,914		9,914		9,914
Number of firms		1,056		1,056		1,056
F statistic		26.43***		26.77***		24.84***
R ² (within)		.089		.092		.094

Note. CSP = corporate social performance.

* $p < .10$. ** $p < .05$. *** $p < .01$.

2% level). ROS is a common alternate operationalization of financial performance, and using net income instead of a ratio such as ROA or ROS can

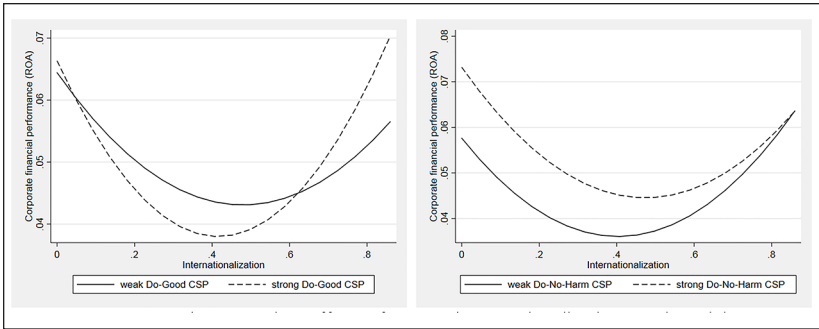


Figure 2. The interactive effects of CSP and internationalization on financial performance, do-good CSP versus do-no-harm CSP.
Note. Estimated marginal effects of Models 2a and 2b in Table 3, with each CSP measure at 1 standard deviation above and below the mean. CSP = corporate social performance.

overcome the deficiencies associated with ratios, in which the independent variables can influence the numerator, the denominator, or both (Barnett & Salomon, 2012). Both alternate measures (not reported here) generate similar results as those produced with ROA, the only qualitative difference being that the interaction between *CSP* and *internationalization* is nonsignificant when *net income* is the dependent variable.

Second, firm-fixed effects models focus on within-firm differences over time, while the data—in particular, given the incorporation of interaction terms—also contain meaningful information on between-firm differences. I adopt a “hybrid approach” (Certo, Withers, & Semadeni, 2017) to parse out both within-firm and between-firm effects, and thus to identify whether the effects hypothesized here are truly within-firm or not. The hybrid approach splits each independent variable into two variables: (a) a centered variable ($x_{it} - \bar{x}_i$), which allows for analysis of within-firm changes over time, and (b) a variable representing the mean value (\bar{x}_i), which allows for between-firm comparisons. Random-effects models are then used to estimate coefficients representing both the within- and between-firm effects of each independent variable.

In Table 4, I report the results of a hybrid model with the overall measure of CSP as a predictor, as well as hybrid models based on do-good CSP and do-no-harm CSP. These models are revealing in a number of ways. Most importantly, the effects hypothesized here and presented in Tables 2 and 3 as “within-firm” effects are confirmed in Table 4. In addition, Table 4 reveals no significant between-firm effects in terms of the level of internationalization

Table 4. Random-Effects Models of Between Versus Within Effects of CSP on the Financial Performance of International Firms.

	Model 3a:		Model 3b:		Model 3c:	
	CSP (overall measure)		Do-good CSP only		Do-no-harm CSP only	
	β	SE	β	SE	β	SE
Constant	0.022	0.013*	0.017	0.015	-0.020	0.014
"Between" effects						
Size	0.011	0.001***	0.011	0.002***	0.016	0.002***
Diversification	-0.004	0.005	-0.006	0.005	-0.005	0.005
Leverage	-0.071	0.026***	-0.061	0.027**	-0.094	0.027***
R&D	-0.013	0.005***	-0.010	0.005**	-0.011	0.005***
Advertising	0.017	0.004***	0.018	0.005***	0.018	0.004***
CSP	0.063	0.018***	0.006	0.014	0.068	0.015***
Internationalization	0.036	0.033	0.050	0.034	0.048	0.033
Internationalization ²	-0.048	0.038	-0.060	0.039	-0.053	0.038
CSP \times Internationalization	-0.152	0.107	-0.043	0.078	-0.116	0.087
CSP \times Internationalization ²	0.118	0.131	0.065	0.096	0.055	0.109
"Within" effects						
Size	0.041	0.002***	0.041	0.002***	0.042	0.002***
Diversification	-0.012	0.003***	-0.013	0.003***	-0.013	0.003***
Leverage	-0.074	0.016***	-0.075	0.016***	-0.075	0.016***
R&D	-0.003	0.006	-0.004	0.006	-0.003	0.006
Advertising	0.001	0.004	0.001	0.004	0.000	0.004
CSP	0.014	0.005***	0.002	0.005	0.016	0.005***
Internationalization	-0.111	0.019***	-0.112	0.019***	-0.113	0.019***
Internationalization ²	0.127	0.023***	0.128	0.023***	0.129	0.023***
CSP \times Internationalization	-0.064	0.027**	-0.048	0.024**	-0.013	0.027
CSP \times Internationalization ²	0.078	0.033**	0.070	0.028**	-0.006	0.033
Firm-fixed effects	No		No		No	
Year dummies	Yes		Yes		Yes	
Geographic scope control	Yes		Yes		Yes	
Number of observations	9,914		9,914		9,914	
Number of firms	1,056		1,056		1,056	
Wald χ^2 statistic	1,053.07***		1,024.95***		1,078.07***	
R ² (between)	.135		.118		.147	
R ² (within)	.092		.092		.092	
R ² (overall)	.115		.103		.121	

Note. CSP = corporate social performance.

* $p < .10$. ** $p < .05$. *** $p < .01$.

or the level of internationalization in interaction with CSP. As such, the hybrid models support the perspective presented here, in which these effects

are specific to individual firms as they pass through the range of internationalization, and not a function of different firms being situated at different levels of internationalization with different levels of performance.

In addition, panel data can present issues of bias stemming from endogeneity and autocorrelation. For instance, CSP and internationalization may be endogenously determined, in light of studies suggesting that internationalization and social performance may go hand in hand (Strike et al., 2006). Similarly, it may also be that past financial performance plays into the decision whether to expand internationally or affects the availability of resources with which to invest in CSP (Gao & Slawinski, 2015; Kang, 2013; Strike et al., 2006). Autocorrelation occurs when the error term (ε) is first-order autoregressive, that is, ε at t is correlated with ε at $t - 1$ (Choi & Wang, 2009). Autocorrelation is likely to be present in my data given that year-on-year variation in company financials is, to some extent, path dependent (Barnett & Salomon, 2012). A Wooldridge test for serial autocorrelation supported this suspicion, $F(1, 1001) = 1,139.67; p > F = .000$.

While the use of firm-fixed effects help to account for these issues to some degree, I undertook three additional steps in an effort to address them further, reported in Table 5. First, I lagged the predictors by 1 year to address the potential for simultaneous or reverse causality. These results, reported in Model 4a, are consistent with those reported in Table 2. With respect to autocorrelation, an autoregressive model (xtregar in Stata), which employs a panel-by-panel Cochrane–Orcutt transformation to difference out the correlations between error terms, offers a more robust specification (Choi & Wang, 2009). These results, reported in Model 4b, are strongly consistent with those reported in Table 2.

Finally, to take a more rigorous approach to the endogeneity issue, I followed the approach of Sanders and Hambrick (2007) by incorporating additional controls in the form of CSP and internationalization's *predicted* values. By incorporating CSP (predicted) and internationalization (predicted), along with the quadratic term for internationalization (predicted) and all their respective interactions (Hamilton & Nickerson, 2003), it is possible to better isolate the residual effects of CSP and internationalization that are *not* explained by any significant relationships they may have with each other or with the dependent variable.

To generate these predicted values, I regressed CSP and internationalization, respectively, on the other variables in the model from the previous year (including the dependent variable ROA). As this approach requires that at least some of the variables are significant predictors of CSP and/or internationalization, I note here for completeness that variance in CSP from $t = 0$ to $t + 1$ is explained by variance in ROA from $t - 1$ to $t = 0$, but not by variance

Table 5. Firm-Fixed Effect Models Accounting for Simultaneous Causality and Autocorrelation.

	Model 4a: Lag(1)		Model 4b: Lag(1) + AR(1)		Model 4c: Lag(1) + endogeneity	
	β	SE	β	SE	β	SE
Constant	0.032	0.019*	0.125	0.013***	0.069	0.028**
Size	-0.001	0.003	-0.014	0.003***	0.000	0.003
Diversification	-0.009	0.003***	-0.009	0.004**	-0.007	0.003**
Leverage	0.218	0.017***	0.217	0.020***	0.183	0.019***
R&D	-0.009	0.006	-0.005	0.008	-0.009	0.007
Advertising	0.002	0.004	-0.003	0.005	-0.002	0.005
Geographic scope						
1	-0.001	0.004	-0.002	0.005	0.003	0.005
2	-0.003	0.004	-0.004	0.005	0.002	0.005
3	-0.011	0.005**	-0.013	0.006**	-0.008	0.006
4	-0.011	0.005**	-0.010	0.007	-0.006	0.006
5	-0.006	0.006	-0.001	0.007	-0.002	0.007
6	-0.010	0.008	-0.011	0.009	-0.010	0.009
7	-0.001	0.008	-0.003	0.010	0.003	0.009
CSP (predicted)					0.194	0.303
Internationalization (predicted)					-0.363	0.195*
Internationalization ² (predicted)					0.290	0.279
CSP \times Internationalization (predicted)					-1.044	1.715
CSP \times Internationalization ² (predicted)					0.941	2.432
CSP	0.010	0.005*	0.012	0.007*	0.013	0.006**
Internationalization	-0.064	0.021***	-0.049	0.029*	-0.050	0.024**
Internationalization ²	0.099	0.025***	0.095	0.034***	0.097	0.028***
CSP \times Internationalization	-0.106	0.030***	-0.113	0.037***	-0.114	0.032***
CSP \times Internationalization ²	0.159	0.037***	0.158	0.045***	0.164	0.039***
Firm-fixed effects		Yes		Yes		Yes
Year dummies		Yes		No		Yes
Number of observations		8,695		7,649		7,552
Number of firms		1,046		1,009		1,005
F statistic		21.52***		10.02***		16.19***
R ² (within)		.085		.025		.084

Note. All predictors lagged. Model 4b does not include year dummies as the xtregar specification does not allow for inclusion of time series operators. CSP = corporate social performance.

* $p < .10$. ** $p < .05$. *** $p < .01$.

in internationalization. In contrast, variance in internationalization from $t = 0$ to $t + 1$ is explained neither by variance in ROA nor CSP from $t - 1$ to

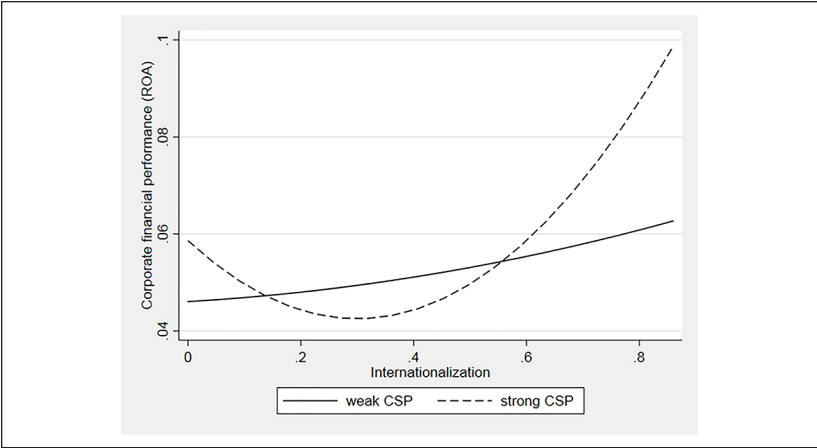


Figure 3. The interactive effects of CSP and internationalization on financial performance, controlling for endogeneity.
Note. Curves show estimated marginal effects of Model 4c in Table 5. Estimates produced for CSP are at 1 standard deviation above and below the mean. CSP = corporate social performance.

$t = 0$ (but is explained by other variables). The specification including these controls (Model 4c) suggests that my findings are robust to endogeneity concerns.

Finally, I graphed the results of Model 4c to determine whether any effects absorbed by these endogeneity controls affected the overall interpretation of the results (Figure 3). Figure 3 suggests that when accounting for possible endogeneity, the most robust dynamics occur in the context of strong CSP, which is consistent with the perspective outlined above.

Discussion

In this article, I integrate arguments from the IB literature with the literature on CSP to propose that the costs and benefits associated with CSP are unevenly distributed across the range of internationalization. Both literatures highlight the costs associated with achieving strong CSP and with international expansion, and both literatures explicate perception-based mechanisms underlying benefits which may offset or even surpass costs. Furthermore, a key assumption in both literatures is that costs are likely to outweigh benefits in the short term, while benefits are likely to outweigh costs in the long term. Parsing out the respective effects of CSP's constituent elements, do-good

CSP and do-no-harm CSP, offers an additional level of nuance in explicating how CSP affects the performance of internationalizing firms. Analysis of a set of 1,056 U.S. international firms from 1995 to 2012 consisting of 9,914 observations provides support for these ideas.

Theoretical Contributions

My study contributes to research on business and society in two primary ways. First, it enhances our understanding of when CSP contributes to the performance of firms as they expand internationally (Doh et al., 2015; Marano et al., 2017; Stahl et al., 2016). Although extant research has thus far only superficially explored these relationships, many scholars assume that CSP is valued in international markets (Muller & Kolk, 2010; Prakash & Potoski, 2006), while others claim it will be regarded with skepticism (Jamali, 2010; Jeppesen et al., 2002; Kellenberg, 2009). Rooted in the notion that CSP's costs and benefits are unevenly distributed over time (Flammer & Bansal, 2017), my perspective helps to reconcile these two views. Given that perceptions and attributions are fundamental to CSP's potential to generate financial value (Crilly et al., 2016; Godfrey et al., 2009; Mazutis & Slawinski, 2015), my findings form indirect evidence that international firms' CSP is interpreted differently as the international firm goes from being a relatively unknown quantity at low levels of internationalization to being a well-recognized player at high levels of internationalization. By implication, my findings suggest that CSP does not substitute for other heuristics on whose basis overseas stakeholders may form their legitimacy assessments, but rather that CSP is interpreted in the context of such heuristics. This aligns with the notion that legitimacy is more of an ongoing process than it is a state (Bitektine & Haack, 2015; Pant & Ramachandran, 2012) and offers a dynamic perspective that extends beyond recent research on stakeholder perceptions of international firms and attributions of their CSP (Crilly et al., 2016).

Second, in line with research suggesting that do-good CSP is associated with not only higher costs but also greater potential benefits than do-no-harm CSP (Crilly et al., 2016; Lin-Hi & Blumberg, 2018; Mattingly & Berman, 2006), I show that the effects of do-good CSP vary with the level of internationalization, while those of do-no-harm CSP do not. These findings thus integrate the idea that the cost of do-good CSP is higher than the cost of do-no-harm CSP with the notion that perceptions of authenticity and "social connectedness" (Mazutis & Slawinski, 2015, p. 137) are important mediation mechanisms driving CSP's performance-related outcomes. Given that the costs and benefits of these two forms of CSP are distributed in different ways over time, and thus over the course of international expansion, these findings

have bearing on how we understand the trade-offs between these two approaches to CSP. This interpretation leads to a perspective in which do-no-harm is best understood as a short-term risk mitigation strategy, whereas do-good CSP is best conceptualized as a strategy that bears fruit over the long term. Collectively, the findings presented in this article can inform future research aimed at better understanding the mechanisms underlying CSP's legitimating properties in the international context (Marano et al., 2017; Muller & Kolk, 2010; Stahl et al., 2016).

Managerial Implications

These findings also have consequences for management. First, the fact that the positive performance effects of CSP are only realized at above-average levels of internationalization suggests that managers expecting CSP to compensate for a lack of legitimacy overseas need to rethink their strategy. My results suggest that CSP is not a substitute for other sources of legitimacy in early stages of internationalization, in particular those that arise from direct interaction with local firms. A reputation for strong CSP does not precede the firm, but rather is only interpreted in the context of established familiarity. This means that while CSP can certainly reinforce other legitimacy signals, it does not pave the way for internationalization. The implication is that firms wishing to garner benefits through international expansion still have to earn them the old-fashioned way: by being a good, trustworthy business partner. CSP helps to add value only when the international firm becomes a known quantity.

In addition, weaker financial performance at lower degrees of internationalization need not necessarily be seen as a negative outcome, but rather as a form of investment in the development of stable business relationships in current, as well as future, overseas markets. At the same time, given that my study shows that the average firm in my sample is on the “down-” (i.e., left-) side of the curve in Figure 1, managers of firms for which international expansion is a strategic goal in its own right would do well to recognize that, from a performance aspect, their firm may be “under-internationalized.” Finally, managers should understand that do-good CSP and do-no-harm CSP are not simply two sides of the same coin. The differing distribution of costs and benefits over time and, thus, over the range of internationalization means that each relates to financial performance in very different ways. Firms interested in short-term risk mitigation may focus on strategies aimed at do-no-harm CSP, while firms interested in long-term social (and financial) value should focus on strategies aimed at do-good CSP.

Limitations

My study is also subject to limitations. For one, although my analysis is based on a large sample of international firms with sales spanning the globe over an 18-year period and controls for the geographic scope of those sales, it does not account for a diverse range of home-country contexts. U.S. firms may be assessed overseas based on a particularly strong set of assumptions or stereotypes than firms from other countries, and thus may experience a deeper and longer downward performance trajectory as they expand abroad to other countries. On the contrary, the United States may be considered a context with a higher level of generalized trust, and thus U.S. firms may experience a more positive reception in overseas markets than firms from other countries. Future research might explore whether specific, country-of-origin-related heuristics alter relationships identified here (cf. Campbell et al., 2012; Marano et al., 2016).

My conceptualization is also not intended to suggest that local, contextual features of individual foreign markets have no importance, given that geography is clearly an important factor in organizations' social behaviors (Muller & Whiteman, 2009, 2016). It may be, for instance, that under very high levels of institutional distance, the legitimating properties of CSP become more (or possibly less) important than other sources of (business-related) information conveyed through expanding commitment to the international arena. Thus, future research might consider the interplay between contextual factors and firm-specific attributions of character. Relatedly, while KLD scores cover the entirety of a firm's operations and thus are inherently international, I acknowledge that my treatment of CSP does not fully account for cross-country differences in stakeholders' understandings and expectations (Rathert, 2016; Wijen, 2014). However, in the context of my theorizing, my argument is that CSP is more than just firms' accommodation of an increasingly diverse array of utilitarian, stakeholder-specific interests; rather, CSP can be understood in terms of the legitimacy-enhancing properties of the positive attributions it generates and the financial performance effects associated with them (Godfrey, 2005). Future scholars might develop a qualitatively richer approach to offer a more fine-grained perspective on the relationships investigated here.

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Notes

1. Although some studies have revealed a downturn in performance at very high levels of internationalization (Contractor, Kundu, & Hsu, 2003; Lu & Beamish, 2004; Ruigrok, Amann, & Wagner, 2007), this seems to apply to a limited number of settings.
2. This led to identification of 64,433 non-U.S. geographic segments over the period under study, which broke down as follows: Africa, 2,041; Asia, 11,387; Europe, 15,740; Latin America, 3,486; Middle East, 2,135; Non-U.S. North America, 7,552; and Pacific, 3,875. The remaining (Undetermined) segments (18,217) could not be attributed to any region. More detailed information is available upon request.
3. An alternate operationalization is to *sum* across the standardized strengths and concerns, respectively, to calculate the do-good and do-no-harm measures, as has been done in prior studies (cf. Mattingly & Berman, 2006; Strike, Gao, & Bansal, 2006). However, operationalizing in such a manner leads to a considerably more skewed measure due to the amplification effects of summing. Also, in contrast to the analyses reported in these prior studies, my specifications are based on panel data and incorporate firm-fixed effects. This within-firm focus over time has the effect that the two approaches are qualitatively similar and lead to virtually identical results.
4. I also tested for a cubic relationship between internationalization and financial performance (the “horizontal S-curve,”) but the coefficient for the cubic term was statistically nonsignificant.

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